

## COFACE ASSESSMENTS

COUNTRY RISK **A3**

BUSINESS CLIMATE **A1**



POPULATION **83.1**  
Millions of persons - 2019

GDP PER CAPITA **46,473**  
US Dollars - 2019

CURRENCY **EUR**  
Euro

## TRADE EXCHANGES

### Exports of goods as a % of total

UNITED STATES	9%
FRANCE	8%
CHINA	7%
NETHERLANDS	7%
UNITED KINGDOM	6%

### Imports of goods as a % of total

NETHERLANDS	14%
CHINA	7%
FRANCE	6%
BELGIUM	6%
POLAND	6%



- Strong industrial base (24% of GDP, 2019)
- Low structural unemployment; well-developed apprenticeship system
- Importance of family-owned exporting SMEs (Mittelstand)
- Relatively low private household debt (96% of disposable income, 2019)
- Institutional system promoting representativeness



- Decline in the working population from 2020 onwards, despite immigration
- Low bank profitability
- Prominence of the automotive and mechanical industries, particularly in exports (33% of GDP in 2019)
- Capacity constraints, insufficient investment (especially in internet accessibility) and venture capital limit productivity gains
- Eastern Länder still lagging behind, although the gap is closing

## Sector risk assessments

AGRI-FOOD	MEDIUM
AUTOMOTIVE	HIGH
CHEMICAL	MEDIUM
CONSTRUCTION	MEDIUM
ENERGY	MEDIUM
ICT*	MEDIUM
METALS	VERY HIGH
PAPER	HIGH
PHARMACEUTICAL	MEDIUM
RETAIL	HIGH
TEXTILE-CLOTHING	VERY HIGH
TRANSPORT	HIGH
WOOD	HIGH

\* Information and Communication Technology

## Main Economic Indicators

	2018	2019	2020 (e)	2021 (f)
GDP growth (%)	1.3	0.6	-5.0	3.5
Inflation (yearly average, %)	1.7	1.5	0.5	2.0
Budget balance (% GDP)	1.8	1.5	-6.7	-5.2
Current account balance (% GDP)	7.4	7.1	7.0	7.1
Public debt (% GDP)	61.8	59.6	74.0	73.1

(e): Estimate. (f): Forecast.

## RISK ASSESSMENT

### Bumpy recovery after a dynamic recession

For 2021, a recovery is expected after a historic recession in 2021. However, depending on the development of the COVID-19 pandemic, as well as the progress of the vaccination, the recovery will turn out bumpy. This development was already seen in 2020. After the virus hit Germany in the spring, the government reacted fast by implementing a lockdown for around 6 weeks, when public life came to a standstill and non-essential shops were closed. In Q2 2020, the strict hygiene rules resulted in the sharpest quarterly economic contraction in the last 70 years as not only private consumption collapsed, but also investments. Concomitantly, exports crashed because of the missing demand from Germany's main export destinations. In the summer 2020, due to the lifting of the restrictions, the economy recovered fast. To support private consumption, the VAT was reduced between July and December (by 3pp.). People spent most of their holidays in Germany, which helped the domestic tourism industry. However, a second COVID-19 wave in the autumn turned out much higher, and resulted in another lockdown (starting in early November, with closed shops from mid-December until at least mid-February). This stopped the economic recovery abruptly and let the economy into another recession at the changeover from one year to the next. This second recession, however, should turn out smaller, as the manufacturing sector is only mildly affected and people are already used to this situation in their consumption behavior. Starting in spring 2021, a moderate recovery is expected, led by private consumption. Purchasing power will be higher, as unemployment should further decrease and more people should leave the status of furlough. Many people will have a higher net-income as the income tax credit will be extended by almost EUR 300 and for most people the solidarity surcharge (a subsidy for the Eastern Länder, 5.5% of the income tax) has been abolished. However, in 2021, wage growth will turn out smaller than in the last years (1.6% after 2.0% in 2020) and the energy costs will increase (the government is introducing prices for CO2-emissions for fuels and gas). The economic recovery should also be backed by higher foreign demand for German exports from the main destinations in China, the Eurozone and the U.S. Governmental help packages will

remain a big support. Several of the measures introduced in 2020 will continue in 2021, like the furlough-scheme (until the end of 2021). EUR 40 billion (1.2% of GDP) of bridging aid are planned, and almost EUR 69 billion (2.1% of GDP) for investments and public credit-programs will remain in 2021. Additional support will come from the ECB, which extended its asset purchases by EUR 500 billion up to EUR 1850 billion, so that it has enough room for maneuver to buy assets in an unchanged manner until the end of March 2022. Further longer-term-refinancing operations (T-LTROs) for an unchanged high credit supply are in the pipeline as well.

### Another year of a public deficit

2021 will be the second year with a public deficit, after nine years of surpluses, as expenditures will remain high and tax revenues will fall. Accordingly, the public debt ratio will remain above the Maastricht target of 60% of GDP. Germany's current account balance, however, should change only mildly. In 2020, the decrease in the goods trade surplus was mainly levelled out by a less important services trade deficit and higher incomes from investments abroad. In 2021, the goods trade balance should improve somewhat, while the services deficit will probably remain muted, which should, in total, increase the current account surplus again.

### COVID-19 gives the government a confidence boost

Chancellor Angela Merkel (CDU) is leading the third consecutive Grand Coalition between Conservatives (CDU/CSU) and the Social Democrats (SPD). The half-heartedness in both parties for this coalition led to the change in their leadership and remained a problematic issue even afterwards. However, Chancellor Merkel regained support with her work to fight COVID-19 and the support rate of the Conservatives increased from around 27% in late February 2020 to 37% at the end of the year. This came at the expense of the Greens (18% in late 2020 down from 22% before COVID-19, remained in 2<sup>nd</sup> place) and the right-wing AfD (9% in late 2020, down from 14% before COVID-19). While the Grand Coalition is expected to remain until the next general election in September 2021, chances are high that the first conservative-green coalition on the federal level could be formed after the election. Angela Merkel, however, will not candidate for the Chancellorship anymore.

**PAYMENT & DEBT COLLECTION PRACTICES IN GERMANY**

**Payment**

Bank transfer (*Überweisung*) remains the most common, means of payment. All leading German banks are connected to the SWIFT network, which enables them to provide a quick and efficient funds transfer service. The SEPA Direct Debit Core Scheme and the SEPA Direct Debit B2B are the newest forms of direct debit.

Bills of exchange and cheques are not used very widely in Germany as payment instruments. For Germans, a bill of exchange implies a critical financial position or distrust in the supplier. Cheques are not considered as payment as such, but as a "payment attempt": as German law ignores the principle of certified cheques, the issuer may cancel payment at any time and on any grounds. In addition, banks are able to reject payments when the issuing account contains insufficient funds. Bounced cheques are fairly common. As a general rule, bills of exchange and cheques are not considered as effective payment instruments, even though they entitle creditors to access a "fast track" procedure for debt collection in case of non-payment.

**Debt Collection**

**Amicable phase**

The amicable collection is an essential step to the success of collection management. The collection process generally begins with the debtor being sent a final demand for payment, via ordinary or registered mail, reminding the debtor of their payment obligations.

According to the law for the acceleration of due payments (*Gesetz zur Beschleunigung fälliger Zahlungen*) a debtor is deemed to be in default if a debt remains unpaid within 30 days of the due payment date and after receipt of an invoice or equivalent request for payment, unless the parties have agreed to a different payment period in the purchase contract. In addition, the debtor is liable for default interest and reminder fees upon expiry of this period.

Debt collection is recommendable and common practice in Germany.

**Legal proceedings**

**Fast-track proceeding**

Provided the claim is undisputed, the creditor may seek order to pay (*Mahnbescheid*) through a simplified and cost-efficient procedure. The creditor describes the details of their claim and is subsequently able to obtain a writ of execution fairly quickly via the Online-Dunning Service (*Mahnportal*), direct interfaces or (only

for private individuals) pre-printed forms. Such automated and centralised (for each *Bundesland*, federal state) procedures are available all over Germany.

This type of action falls within the competence of the local court (*Amtsgericht*) for the region in which the applicant's residence or business is located. For foreign creditors, the competent court is the *Amtsgericht Wedding* (in Berlin). Legal representation is not mandatory.

The debtor is given two weeks after notification to pay their debts or to contest the payment order (*Widerspruch*). If the debtor does not object within this timeframe, the creditor can apply for a writ of execution (*Vollstreckungsbescheid*).

**Ordinary proceedings**

During ordinary proceedings, the court may instruct the parties or their lawyers to substantiate their claim, which the court alone is then authorised to assess. Each litigant is also requested to submit a pleading memorandum outlining their expectations, within the specified time limit.

Once the claim has been properly examined, a public hearing is held at which the court passes an informed judgement (*begründetes Urteil*).

The losing party will customarily bear all court costs, including the lawyer's fees of the winning party to the extent that those fees are in conformity with the Official Fees Schedule (the *Rechtanwaltsvergütungsgesetz*, RVG). In the case of partial success, fees and expenses are borne by each party on a pro rata basis. Ordinary proceedings can take from three months to a year, while claims brought to the federal Supreme Court can reach up to six years.

An appeal (*Berufung*) may be brought against the decision of the Court of First Instance if the objected amount in dispute exceeds €600. An appeal will also be admitted by the Court of First Instance if a case involves a question of principle or necessitates revision of the law in order to ensure "consistent jurisprudence".

**Enforcement of a Legal Decision**

Enforcement may commence once a final judgement is made. If debtors fail to respect a judgment, their bank accounts may be closed and/or a local bailiff can proceed with the seizure and sale of their property.

For foreign awards, in order to obtain an *exequatur*, the creditor needs a notarised German translation of the decision which also has to be recognised, an enforcement order

of this judgment, and an execution clause. Judgments of courts of EU member states are recognised without further procedure - unless certain restrictions arising from European law are applicable.

**Insolvency Proceedings**

**Out-of-court proceedings**

Debtors may attempt to renegotiate their debts with their creditors, which helps to protect debtors from early payment requests. However, the procedure is in the creditors' interest as it can be faster and tends to be less expensive than formal insolvency.

**Restructuring**

Following a petition filed before insolvency court on the basis of illiquidity or over-indebtedness, the court may open preliminary insolvency proceedings, where it appoints a preliminary administration aimed at exploring the chances of restructuring the company. If the administration authorizes this restructuring, it then initiates formal proceedings and nominates an administrator in charge of continuing the debtor's business whilst preserving its assets.

**Liquidation**

Liquidation may be initiated upon demand of either the debtor or the creditor provided that the debtor is unable to settle its debts as they fall due. Once recognized through a liquidation decision and once the company has been removed from the register, the creditors must file their claims with the liquidation administrator within three months of the publication.

**Retention of title**

This is a written clause in the contract in which the supplier will retain the ownership over the delivered goods until the buyer has made full payment of the price. There are three versions of this retention:

- **simple retention:** the supplier will retain the ownership over the goods supplied until full payment is made by the buyer;
- **expanded retention:** the retention is expended to further sale of the subsequent goods; the buyer will assign to the initial supplier the claims issued from the resale to a third party;
- **extended retention:** the retention is extended to the goods processed into a new product and the initial supplier remains the owner or the co-owner up to the value of his delivery.

